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Kaifu's South Asia Initiative

On his April 28-May 6 tour of five South Asian nations Prime Minister Toshiki Kaifu trod a narrow line between Tokyo's desire to extend greater political and economic influence to this part of the world and its reluctance to get involved in regional disputes. Speaking before an April 30 joint session of India's two-chamber parliament, Mr. Kaifu offered to promote a greater political and economic dialogue between Tokyo and the region, expand development assistance and encourage cultural exchange and cooperation "in order to give further depth and breadth to Japan's relations with South Asian countries." In addition, the prime minister said that Japan is ready to provide a wide range of assistance to the seven-nation South Asian Association for Regional Cooperation, which is devoted to fostering economic, technical, social and cultural development in the region. He also indicated that Tokyo's recent commitment of economic assistance to Eastern Europe will "in no way weaken our determination to attach high priority to South Asia" -- an attempt to allay apparent concerns that the needs of these countries would be forgotten as Japan joins other members of the Western alliance in supporting the nascent political and economic reform movement in Eastern Europe.

earmarked for the FY 1988-FY 1989 period) apparently was particularly fearful that Japan's growing interest in supporting Eastern European development would result in cuts in its ODA allotment. Mr. Kaifu assured Indonesian President Suharto that the aid Japan plans to extend to his country in FY 1990 will remain at approximately the same level as in the previous two years.

Tokyo remains wary of becoming embroiled in regional political problems. One such trouble area concerns a dispute between India and Pakistan over the secessionist movement in Kashmir, the only Moslem state in predominantly Hindu India. Pakistani Prime Minister Benazir Bhutto suggested that she would like to see Japan assume the role of mediator in this dispute. Mr. Kaifu, however, would not go beyond urging both countries to exercise self-restraint in reaching a peaceful solution to a dispute that twice since 1947 has brought India and Pakistan to arms. Although it could be argued that its economic power in the region has attendant political responsibilities, Tokyo still believes quite strongly that its best contribution to South Asian stability is through its foreign aid program.

Barbara Wanner

Japan's Current Account Surplus Drops

The first three months of this year reverberated with the turbulence of Japan's financial markets. The stock market plummeted, interest rates rose and the already weak yen continued to lose strength. Americans naturally asked what all this uncharacteristic commotion in Japan would mean for them. Some U.S. analysts braced for the worst, recalling that the 1987 stock market crash had seemed to demonstrate how interrelated world financial markets had become. However, Wall Street's comparative strength in the face of the almost daily distress on the Tokyo stock market provided preliminary clues that the damage might be more limited than at first predicted. The January-March balance of payments statistics, released in early May, give further reassurance. These figures, as always, can be read in one of two ways: as the difference between exports and imports of goods and services or as a comparably broad concept of capital outflow. In other words, the larger the current account surplus, the bigger the capital outflow. The first quarter current account made news by behaving predictably despite the turmoil on Japanese markets; it declined 22.8 percent in dollar terms from a year earlier (see Table 1).

The interpretation of the current account figure as a capital flow is the more relevant one for assessing the effects of the financial market turmoil. Some experts had expected that Japanese investors, facing losses on their domestic stock and bond holdings, would withdraw from foreign markets to cover their losses. Unless offset by sharply higher official capital movements or other kinds of outflows, this action would have led to a sharply lower current account surplus. The relatively small decline in the current account provided a hint that this did not happen.

Looking more carefully at individual accounts provides confirmation that the first three months of 1990 were comparatively strong compared to the initial quarters of previous years. For example, the net long-term capital outflow was nearly triple the first quarter 1989 amount and somewhat higher than in the January-March 1988 period. Japanese net purchases of foreign bonds did fall

dramatically but remained in the positive column (see Table 2). However, Japanese net purchases of foreign stock were sharply higher than in the first quarters of 1988 and 1989. Taken together, these numbers suggest that Japanese

Table 1: Japan's Balance of Payments

(in millions of dollars)

	Trade Balance	Exports (f.o.b.)	Imports (f.o.b.)	Services (net)	Current Account Balance	Long-Term Capital (net)
1985	$55,986	$174,015	$118,029	$-5,165	$49,169	$-64,542
1986	92,827	205,591	112,764	-4,932	85,845	-131,461
1987	96,386	224,605	128,219	-5,702	87,015	-136,532
1988	95,012	259,765	164,753	-11,263	79,631	-130,930
1989	76,917	269,570	192,653	-15,526	57,157	-89,246
1988: I	21,021	59,345	38,324	-1,337	18,421	-15,142
II	22,448	63,559	41,111	-2,882	16,567	-36,556
III	23,765	65,989	42,224	-3,623	19,052	-42,214
IV	27,778	70,872	43,094	-3,421	23,591	-37,018
1989: I	21,311	66,945	45,634	-3,595	16,064	-5,612
II	19,794	66,560	46,766	-4,892	14,283	-30,801
III	19,770	68,157	48,387	-4,023	14,957	-21,559
IV	16,042	67,908	51,866	-3,016	11,853	-31,274
1990: I (p)	14,572	65,235	50,663	-779	12,404	-16,428

Table 2: Japan's Net Purchases of Foreign Securities

(in millions of dollars)

	Bonds			Stocks		
	Purchases	Sales	Net	Purchases	Sales	Net
1985	$291,338	$237,859	$53,479	$5,484	$4,489	$995
1986	1,346,989	1,253,965	93,024	20,917	13,869	7,048
1987	1,273,829	1,200,944	72,885	70,936	54,062	16,874
1988	1,364,061	1,278,249	85,812	76,560	73,567	2,993
1989	1,683,733	1,589,650	94,083	97,056	79,169	17,887
1988: I	332,047	318,877	13,170	18,901	19,467	-566
II	401,293	374,371	26,922	20,518	20,643	-125
III	333,473	307,635	25,838	25,166	23,425	1,741
IV	297,248	277,366	19,882	11,975	10,032	1,943
1989: I	341,774	327,771	14,003	17,724	17,828	-104
II	487,087	461,996	25,091	21,228	15,120	6,108
III	463,493	437,622	25,871	23,602	18,807	4,795
IV	391,379	362,261	29,118	34,502	27,414	7,088
1990: I (p)	356,393	355,524	869	27,640	22,694	4,946

investors did not sell off their foreign holdings and even may have substituted American and European stocks for Japanese equities to a modest degree in response to the weakness in the Tokyo market.

Even the unusually small net increase in foreign bond holdings offered more positive news for the stability of international capital markets than it might have appeared. The Bank of Japan has been pushing up interest rates since mid-1989 in an effort to increase the returns on investment in Japan, thereby hoping to increase the demand for yen and raise the value of the Japanese currency. Of course, a precipitous retreat from foreign bond markets would be destabilizing. The figures suggest that the equivalent of a soft landing in the flow of capital has been successfully implemented. The crash that could have resulted from a Japanese pullout has been avoided, and at least some outbound investment flows have declined significantly.

The current account figures as trade statistics demonstrate why BOJ's success with regard to strengthening the yen could be critical. Some experts claim that the recent apparent progress in reducing the current account surplus has been purchased with a J-curve: the yen's weakness implies that exports and imports have been denominated in more expensive dollars, making the imbalance appear smaller for a few months before growing again. While the January-March quarterly figure was down a comfortable amount from a year earlier, the yen's sustained weakness may have begun to adversely affect the results, hinting at a bend in the "J."

In sharp contrast to the deficit in the current account registered in January and a healthy year-to-year decline in the February surplus, the $8 billion surplus in March exceeded the year-earlier figure. In addition, the deficit in services, a major factor in the five straight year-to-year declines in the quarterly current account, turned to surplus for the month and practically disappeared for the three-month period. In the past the services figure has been extremely sensitive to exchange rate changes. These factors suggest that further long-run progress in reducing the current account surplus is problematic unless the yen strengthens. The capital account figures compared to a year earlier, together with the stabilization of the yen in April and early May, are grounds for optimism on this score.

The latest figures rounded out Japan's 1989 fiscal year, which ended March 31. The FY 1989 current account surplus of $53.5 billion was substantially under the government's initial $71.1 billion outlook made more than a year ago and the revised figure of $61 billion anticipated as of last December. The greater-than-expected apparent progress was at least partly a result of the unexpectedly weak yen and the J-curve. Those who expect the yen to weaken further logically could expect a still smaller current account surplus in FY 1990. Ironically, BOJ's attempts to strengthen the yen, if successful, could result in a reversed J-curve that could lift the FY 1990 current account surplus above that of FY 1989.

Douglas Ostrom

Allegations Of Antitrust Violations Heard On Capitol Hill

The House Judiciary Committee's subcommittee on economic and commercial law heard arguments May 3 that the United States must guard against violations